





How Informative Are Earnings Numbers That Exclude Goodwill Amortization?

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In the original exposure draft, *Business Combinations and Intangible Assets*, the Financial Accounting Standards Board (FASB) proposed that companies be allowed to report a second per share earnings number that excludes goodwill amortization. Subsequently, the FASB has proposed that goodwill not be amortized at all. Instead, it will be written down when impaired. In this study, we assess the information content of earnings excluding amortization of intangibles relative to two traditional performance measures: earnings before extraordinary items and cash flow from operations.

We find that the relative informativeness of earnings before amortization and earnings before extraordinary items do not differ significantly. We also find, consistent with prior research, that both earnings before amortization and earnings before extraordinary items are more informative than cash flow from operations. These findings suggest that goodwill amortization disclosures were not decision-useful and, therefore, support the FASB's revised position.

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